

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ADP-00 NSC-04 NSCE-00 TRSE-00 FRB-03

INR-01 CIEP-01 RSR-01 RSC-01 /020 W

----- 002738

R 031943Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3115

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

TREASURY DEPT WASHDC

C O N F I D E N T I A L LONDON 08991

LIMDIS GREENBACK

DEPARTMENT ALSO PASS FRB

E.O. 11652: XGDS-1

TAGS: UK, EFIN

SUBJECT: UK VIEWS ON C-20 AND INTERNATIONAL MONETARY
DEVELOPMENTS

1. UK TREASURY PARTICIPANT IN C-20 MEETING AND EC CAUCUS
GAVE TREASURY REPRESENTATIVE RUNDOWN ON C-20 MEETINGS AND
RELATED DEVELOPMENTS. WE WILL NOT REPEAT POINTS
OBVIOUSLY KNOWN TO US PARTICIPANTS. IN GENERAL, UK
DELEGATION PLEASED AND ENCOURAGED BY OUTCOME OF MEETING,
WHICH REFLECTS WELL ON WORK OF THE DEPUTIES.

2. OF PARTICULAR INTEREST, SOURCE SAID THAT IN HIS
OPINION US SHOULD TAKE LOW POSTURE ON QUESTION OF GOLD
DURING COMING MONTHS. MOST EC MEMBERS FAVOR THE POSITION
OF SALES ONLY TO, AND NO PURCHASES FROM, THE FREE MARKET.
TRANSACTIONS BETWEEN CENTRAL BANKS WOULD BE AT THE OFFI-
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CIAL RATE, BUT FEW, IF ANY, OF THESE ARE ENVISAGED. THIS

WOULD BE CONSISTENT WITH LONGER TERM AIM OF GRADUALLY PHASING GOLD OUT OF THE SYSTEM. POSSIBLE USE OF GOLD TO AUGMENT RESERVES COULD BE THROUGH PLEDGING GOLD AGAINST EURODOLLAR BORROWING TO DEAL WITH SHORT-TERM CRISES OR NEEDS. EC COUNTRIES WILL BE DISCUSSING THIS DURING COMING MONTHS. IT WAS SUGGESTED TO US THAT US INTERESTS MIGHT BEST BE SERVED BY LETTING THEM FIGHT IT OUT AMONG THEMSELVES.

3. NEW DUTCH FINANCE MINISTER HOPED FOR EC FINANCE MINISTERS MEETING IN NETHERLANDS SEPTEMBER 3-4, TO CAUCUS ON C-20 POSITIONS PRIOR TO C-20 DEPUTIES MEETING SEPTEMBER 5-7. GISCARD D'ESTAING AND SCHMIDT WOULD NOT ATTEND, DESPITE PROTESTATIONS FROM HAFERKAMP OF EC COMMISSION ABOUT IMPORTANCE OF CONTINUED COOPERATION BETWEEN EC FINANCE MINISTERS. BARBER THEN ALSO EXPRESSED RELUCTANCE AND MEETING WAS SCRATCHED.

4. IN CORRIDOR CONVERSATIONS, GERMANS REPORTEDLY CONCERNED ABOUT THEIR LONGER TERM BALANCE OF PAYMENTS OUTLOOK AS RESULT OF REVALUATIONS, BOTH ON EXPORTS AND TOURISM, NOT RULING OUT POSSIBILITY OF DM/DOLLAR RATE EVENTUALLY MOVING UP TO 2.6 - 2.7 DM TO DOLLAR.

5. DURING C-20 MEETINGS, EMMINGER OF BUNDESBANK PRIVATELY APOLOGIZED TO UK DELEGATION FOR THE HIGH LEVEL OF GERMAN INTEREST RATES, SAYING HE WOULD DO EVERYTHING POSSIBLE TO TRY TO BRING THEM DOWN. IN THIS CONNECTION, SOURCE SAID UK SPENT OVER 300 MILLION DOLLARS FROM UK RESERVES IN LAST DAYS OF JULY WHILE UK WAS INTERVENING TO DEFEND RATE FROM FALLING BELOW \$2.50.

6. ON RELATED POINT, UK WILL ATTEMPT TO EXTEND STERLING AGREEMENTS IN A VAGUE FASHION, WITH AN ATTITUDE OF "LET'S CARRY ON AS WE ARE NOW UNTIL REFORM OF THE INTERNATIONAL MONETARY SYSTEM IS ACHIEVED AT WHICH POINT THE SITUATION CAN BE REVIEWED." SOME STAFF MEMBERS IN HMTREASURY ARGUED STRONGLY IN FAVOR OF ALLOWING THE AGREEMENTS TO LAPSE COMPLETELY. IN THE LAST ANALYSIS, CONFIDENTIAL

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THEY WERE OVERRULED BY VIEWS OF FORMER GOVERNOR OF THE BANK OF ENGLAND LESLIE O'BRIEN WHO FELT AGREEMENTS SHOULD BE EXTENDED IN SOME FORM.

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Message Attributes

Automatic DecapTIONing: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 03 AUG 1973
DecapTION Date: 28 MAY 2004
DecapTION Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: hilburpw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON08991
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1 SOHM
Errors: N/A
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730859/aaaabrqq.tel
Line Count: 112
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: hilburpw
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: WITHDRAWN <12-Jul-2001 by worrelsw, 3.4.X6>; RELEASED <24-Jul-2001 by sulserja>; APPROVED <06-Sep-2001 by hilburpw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UK VIEWS ON C-20 AND INTERNATIONAL MONETARY DEVELOPMENTS
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005